

BusinessPlus+ Newsletter



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Business Recovery Guidance

The COVID-19 outbreak has impacted, and continues to impact businesses in different ways, ranging from minimal to staying in business. Global efforts to contain the outbreak through mobility restrictions caused drastic shifts in consumer demand and behaviour, supply-chain shocks and operational disruptions.

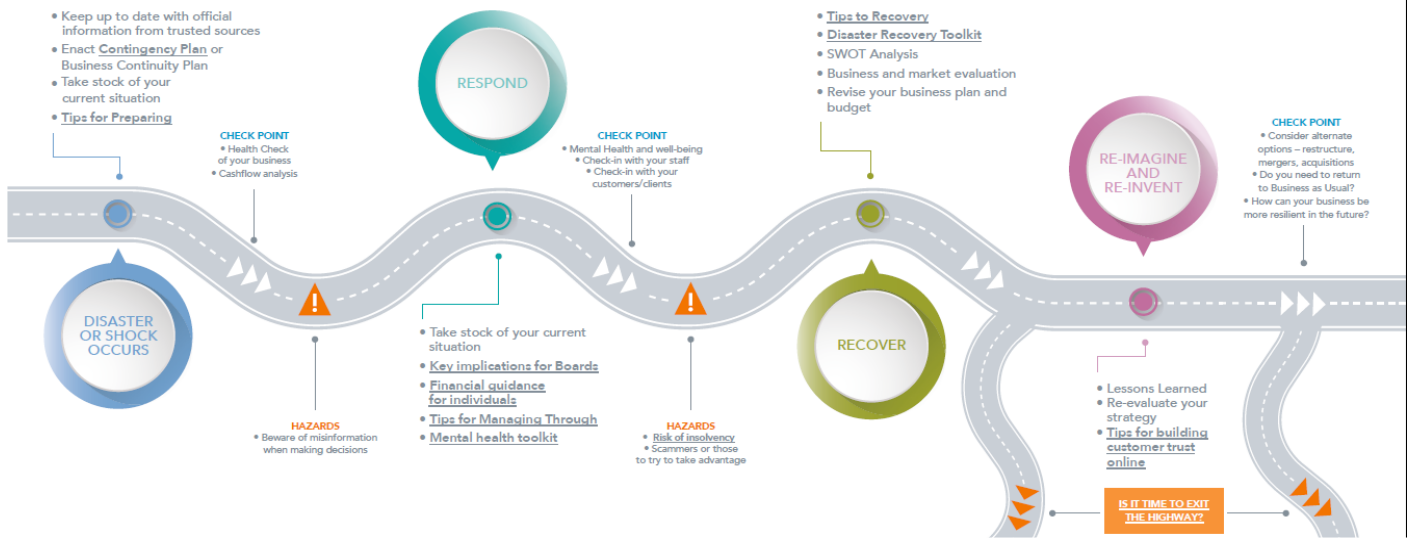
Governments are easing restrictions in stages and therefore businesses will recover at varied paces based on geography and industry. Several scenarios exist for what the post-COVID19 “normal” will look like. The current experience has no doubt reshaped business practices and consumer behaviour, many of which will lead to some permanent changes. What those changes will be, time will tell.

Evaluating how you believe your market will operate post-COVID 19 will help you determine what products and services you should be offering – whether you continue with the same offerings or need to adapt or pivot in line with expected changes in consumer preferences and behaviours. An evaluation of how your business was operating before the crisis will help you take stock and understand your operations to give you a clear picture of where to start in the recovery process.

Act now to protect and run the business today		Plan now to retool the business for the future	
 <p>Respond to the crisis and protect the business</p> <ul style="list-style-type: none"> Put the safety of employees and customers first Set up a war room of senior leaders to tackle immediate challenges Model scenarios more aggressive than any your team has imagined Focus on revenues, costs, cash, operations and organization 	 <p>Ensure business continuity and stability</p> <ul style="list-style-type: none"> Shift the war room from reactive to proactive crisis management Plan a cascade of more severe actions to preserve business viability, and identify what would trigger them Focus on employee sustainability, particularly for the crisis-response team Reduce or eliminate nonessential activity 	 <p>Accelerate through the recovery</p> <ul style="list-style-type: none"> Forecast demand by geography, channel and segment Develop flexible operational, organizational, and financial plans to capture pent-up demand (or adjust for over-served demand) Build resilience into operations and other functions for future risks Prepare your cost structure and balance sheet for the future and begin to acquire new capabilities 	 <p>Retool for the new world</p> <ul style="list-style-type: none"> Rediscover the raw customer need while avoiding “average customer” discussions Rethink strategic priorities and invest in or acquire key capabilities to leapfrog the next few chapters of your industry’s evolution Use digitalization and partnerships to help your organization and operations increase resilience, scale and speed Start a learning journey to accelerate your most critical initiatives and build future businesses

Source: Bain & Company

Roadmap to Recovery



For a pdf copy of the complete **Roadmap to Recovery** shown above, please click on the link [here](#) and to access the complete **Business Recovery Toolkit & Worksheets – Tips for Small Business** use this link [here](#).

For access to the **Small Business Continuity Checklist – “How to Survive & Thrive Post COVID-19”** that includes both a Financial Management Tasks checklist and Strategic Management Tasks checklist, please click on the link [here](#).

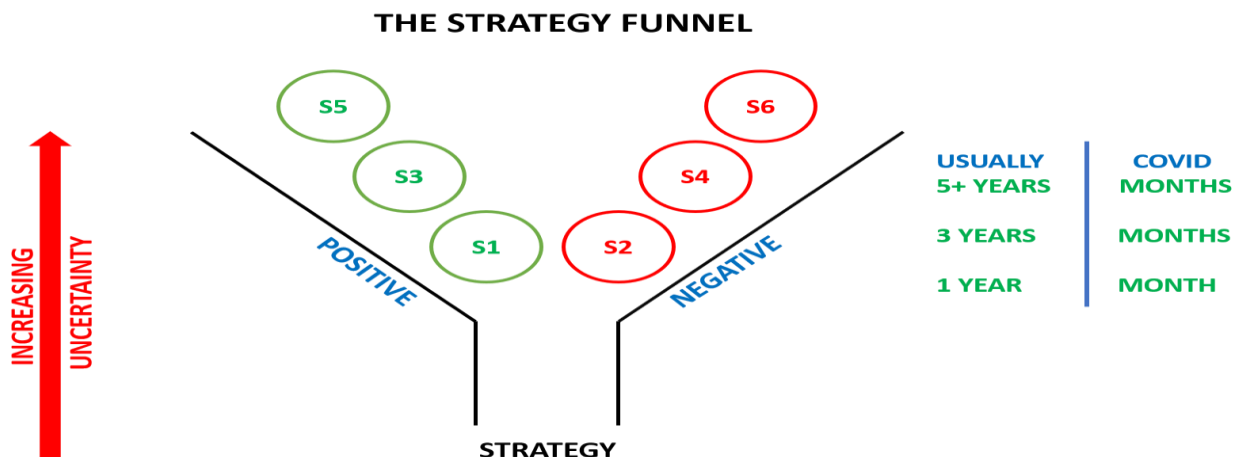
For specific one-on-one guidance for your business situation, please contact your CBSW Director to have a discussion and get the right assistance for your circumstances.

The Strategy Funnel

We have taken a sales and marketing tool and turned it into a strategy tool that you might find very helpful right now. The concept works like this:

There are a range of possible futures playing out for each of us. None we can be certain about. The further out in time we look the more uncertain the view and our usual response - generally, scenario planning and forecasting. **The questions you should be asking yourself now is how many scenarios should you be considering for your business and how can I move them along the strategy funnel?**

The strategy funnel is shown here. It starts with scenarios built on the furthest time horizons- ones with the greatest uncertainty and the greatest variability between good and bad outcomes. The further down the funnel, the more certainty prevails with the less variability. **To start look at least four and preferably six scenarios - one for each positive and negative scenario, situated at three different time horizons.**



The difference between a strategy sales funnel of a year ago, and now, is the shift in time horizons from years to months. The good news about this is, you will know how good your bets were a lot sooner.

To set the funnel up for the next 6 months (plus) of COVID, make a record of the main assumptions you have made in each of the scenarios. For example:

- The economy recovers sufficiently; the government decides it does not need to extend the stimulus package beyond September.
- A second wave occurs, and restrictions are reintroduced.
- A second wave occurs, and restrictions are not reintroduced; there is a return in large numbers of hospitalisations and multiple fatalities.
- Your competitors reduce/increase prices.
- Consumer confidence improves/remains the same.

Re-Visit Strategic Priorities

Companies that emerge stronger after recessions are not those that cut faster and deeper. **To emerge stronger, redirect costs to the right growth drivers.** Step one in achieving this balance is to answer some simple questions about strategy.

- **How has your market changed? What's happened to your customers, suppliers and competitors? What market trends or disruptors have accelerated?**
- **What business value propositions look promising in a post-COVID-19 world?**
- **Can you articulate the few things your organisation needs to do better than anyone else in order to meet those value propositions? What will your competitive advantage be?**
- **Are you investing enough in those few things? Where do you need to spend less so you have the funds to redirect costs to value-creating differentiation?**

These questions should help you quickly frame your few must-haves — the handful of capabilities that differentiate your company in the market. Doubling down in these areas helps ensure that no matter what the outcome, your business has the right muscles to emerge stronger.

Keep in mind that what was differentiating your firm before the crisis may now no longer be working.

In the case of the strategy funnel, the scenarios are moved through the funnel by asking the question “Was this assumption right or wrong?” If for one scenario you are answering “wrong” often enough, the scenario exits the funnel to be replaced by a new scenario.

We know this might seem like quite a bit of work. However, **having a flexible strategy is critical right now; even more critical is knowing when to re-orientate it. But choose a timeline that makes sense for your business. That might be monthly or quarterly or even longer, especially if you are in a less volatile industry sector.**

For assistance with determining your new strategic direction in the recovery and revitalise phase post- COVID, please contact Lyall Bear, our dedicated business advisory consultant, who can help guide you and your business to be well placed into the future.

Scenario planning helps to identify what might happen in the future of your business, such as predicting cash flow in the short, medium or long term.

By modelling each scenario, you can create contingency plans to better prepare you for any situation. An example of this is below:

	Scenario 1: Not achieving plan	Scenario 2: Significant downturn	Scenario 3: Cashflow crisis
Potential impact to your business	<ul style="list-style-type: none"> • Change to customer behaviour. • Flat to mild decline in revenue. • Disruption to operations. 	<ul style="list-style-type: none"> • Significant impact likely over multiple years. • Some lines of business no longer profitable. • Significant operational disruption. 	<ul style="list-style-type: none"> • Sustained reduction in revenue. • Doubts about sustained viability of certain lines of business.

Better Banking Relationships Vital in an Economic Downturn

The COVID-19 pandemic has put many small-to-medium enterprises (SMEs) under unprecedented pressures, forcing many to defer loan repayments and seek funding support, while grappling with severely diminished cash flows.

Here are some key questions to ask yourself as the business owner(s) in developing strategies, so you can more effectively engage with banks and other lending institutions as necessary: -

Managing Cash Flow

- *How much money is coming and going over the next 6, 12, 24 months?*
- *From where is it coming?*
- *With what certainty?*
- *What are your backup plans in case of shortfalls?*

Financial Decision-Making

- *Can you convey cash flow implications of decisions?*
- *Do you have contingency plans when current expectations don't pan out?*
- *What is your risk exposure considering current cash flow forecasts?*
- *It is sometimes helpful to ask: "What if we don't do X?" Think through the implications - It's often insightful.*

How Accountants Can Smoothen the Process

Joe Formichella, head of small business banking at Bendigo Bank – Australia's fifth-largest retail bank – says the role of accountants in assisting SMEs to access finance can't be underestimated. "Ideally, we want business customers to connect with their accountant very early on to let them know they're looking to borrow money."

"We would hope the business customer and accountant would conduct due diligence around the purpose of the loan, the business's ability to service that loan, and what additional time they'll need to be able to repay the additional debt."

The most appropriate loan products for a business customer – whether it be bridging finance, working capital facilities, or for other borrowing needs – are discussed at the time the customer meets with the bank's relationship manager. Every customer and every business are different, so it depends on the life cycle and maturity of the business when they come to a bank. **It's important to come prepared with a business case and plan detailing the loan's purpose. It needs to make sense for the business, and for any additional funding to deliver a net benefit to the business.**

Preparation of Key Financial Projections

Lenders first need to ensure a business is viable, which requires understanding its financial performance history to identify a trend.

Generally, this requires providing two-to-three years of financials, including the applicant's current balance sheet, profit and loss, and cash flow statements. Newer applications may need to include more up-to-date financials to demonstrate a continual performance trend.

The lender needs a good idea of the ability of the customer to continue to generate a level of financial performance to support existing debt or additional debt. The bank needs to also understand the quality of management and their performance – the decisions they have made to continue to improve their business and returns.

The bank will be looking for at least a 12-18-month projection on what the future state of the business will look like to ensure any additional debt can be serviced, over and above existing commitments.

Looming Cash Flow Crunch?

Bendigo Bank conducted an intensive business customer calling program to try to better understand the impact the current crisis is having on businesses' operations. They found that most SME's were experiencing quite a bit of frustration and stress.

It is recognised that the spike in loan and tax payment deferrals by businesses, together with the surge in applications for JobKeeper, does present a looming problem, as most assistance measures are only in place until late September this year.

The big question is - are we setting ourselves up for a potential cash flow crunch after September; and how are businesses, banks, and governments going to mitigate the risks of that cash flow crunch? This is now commonly being referred to as the potential "debt-cliff" period – early planning now is vital.

Businesses should begin considering whether they will be able to meet all their [cash flow requirements](#), including deferred loan repayments, come late September, and if possible, start to take action to help them through that impending crunch period.

We can provide you with a useful *Deferral Summary Schedule* for you to undertake an initial analysis of your position. Click on this link to get a copy of the [deferral schedule here](#).

CBSW can assist you in preparing for discussions with your bank and the preparation of three -way forward projections for the business under alternate scenarios. Please contact us for an early discussion where you feel you are or will need assistance.

Practical Business Planning Steps

There are practical steps business owners can be taking now to prepare for when the incentives end, but with so much going on it's easy to avoid taking any action. As you know, the right advice early on can make a huge difference. For example, even the option of shutting down a business with a view to preserving resources until COVID-19 has passed could be a consideration. It's all about understanding the available options.

Here are some tips others have found useful as they prepare for life after the pandemic that you may also find of interest.

Plan:

Plan for the current conditions, the immediate post-stimulus environment, and for the longer term. Ensure you have a contingency plan should the economy be hit by a second coronavirus outbreak. And continue to revisit your plan to ensure it remains relevant to your business and the market.

Calculate:

Assess your current and projected cash flow.

Assess staffing needs:

If your business has experienced change, it's essential to reassess your staffing needs.

Reduce costs:

Where possible, cut costs to minimise further impact on your cash flow.

Communicate:

With your staff, customers, suppliers, creditors and your bank.

Renegotiate rent/lease terms:

If you will struggle to pay your rent, speak with your landlord now and renegotiate existing arrangements.

Funding:

Engage with your bank/lender to discuss funding needs or repayments/interest rate relief. Or seek alternative finance.

Give yourself breathing space:

The Safe Harbour and Voluntary Administration regimes are designed to provide companies and their directors with breathing space and can secure leniency from creditors.

Reinvent yourself:

Prepare for the 'new dawn' – whether it's restructuring your business or restarting with a new model, strategy or market post COVID-19.

Put your hands up:

If your mental health is being impacted by the current financial stresses or the need to let staff go, speak with a trusted adviser or contact Beyond Blue.

To access the [Managing through COVID-19 – “Summary of Australian State & Territory Government Economic Assistance Responses”](#) click on the link [here](#). And for a copy of the [Bain & Co insight – “COVID-19: Protect, Recover and Retool”](#) please click on the link [here](#).

Accessing the Second Cashflow Boost

While the Boost payment(s) have been welcomed by businesses affected by the COVID-19 pandemic, it has caused at least some of them a little confusion. Let's look briefly at how the second Cashflow Boost will work.

Where has the year gone? In no time at all, we are close to lodging June 2020 BAS which will include the finalisation of the first Cashflow Boost and the beginning of the second Cashflow Boost, which will be paid in equal instalments from June - September 2020, of up to \$50,000.

A quick refresh on the Cashflow Boost:

- *It is based on the PAYG withholding a business reported on its March BAS, April Instalment Activity Statement (IAS), May IAS and June BAS.*
- *The minimum payment for each of the Boosts is \$10,000 (total \$20,000) and the maximum payment for each of the boosts is \$50,000 (total \$100,000).*
- *The second Boost is calculated based on the total of the first.*
- *The Cashflow Boost is tax-free.*

How Will It Work?

If a business received the first Cashflow Boost, it will automatically receive the second when it lodges its activity statements for each month/quarter from June - September 2020. If the business lodges monthly, then the Boost will be delivered in 4 instalments. If lodging quarterly, then the boost will be delivered in 2 instalments.

Quarterly lodger – the business will receive 50% of the second Boost in the June 2020 quarter and 50% of the second Boost in the September 2020 quarter.

Monthly lodger – the business will receive 25% of the second Boost in each of the following months in 2020: June, July, August and September.

The confusing part of the calculation is that businesses might receive the final part of their first Boost in the June 2020 quarter after lodging their June quarterly statement and then also receive the first payment of their second Boost in this quarter.

Example 1

ABC Pty Ltd received the minimum first payment of \$10,000 and lodges its BAS quarterly. ABC Pty Ltd will receive \$5,000 for quarter ending June 2020 and \$5,000 for quarter ending September 2020.

Example 2

DCE Pty Ltd received the maximum first payment of \$50,000 and lodges its BAS/IAS monthly. DCE Pty Ltd will receive \$12,500 for month ending June 2020, \$12,500 for month ending July 2020, \$12,500 for month ending August 2020 and \$12,500 for month ending September 2020.

As the Cashflow Boost is tax-free, there is no tax to be paid on these amounts in the entity that receives them.

However, if the entity is a trust or a company, then there may be tax consequences for the recipient when the amount is distributed or paid via dividend.

The Cashflow Boost does not include GST and is not included in turnover calculations for JobKeeper purposes.

Instant Asset Write Off

The Government has announced that the \$150,000 instant asset write-off will be extended for 6 months. It was due to finish on 30 June 2020 but will now cease on 31 December 2020.

The instant asset write-off (IAWO) now applies to entities with turnover of up to \$500 million (up from \$50 million for this limited period) for acquisitions during the period from 12 March 2020 to 31 December 2020. Up to 11 March 2020, the threshold limit had been \$30,000 but was increased as a COVID-19 stimulus measure. The IAWO is scheduled to finish for larger businesses from 1 January 2021 onwards.

The operation of the IAWO from 1 July 2019 is set out in the table below.

Date range for when asset <i>first used or installed ready for use</i>	Threshold	Eligible businesses turnover
1 July 2019 to 11 March 2020	\$30,000	Less than \$50m
12 March 2020 to 31 December 2020	\$150,000	Less than \$500m
1 January 2021 on	\$1,000	Less than \$10m

Research and Development - "Overseas Finding" Application

If your company conducted research and development activities overseas in 2019/20 and you haven't yet applied for an "Overseas Finding", you need to lodge a "Provisional Advance" by 30th June 2020 and complete the registration application by 30th September 2020. The normal date for lodgement of the "Overseas Finding" would have been 30th June 2020 but this date has been extended because of COVID-19.

The minimum details required in a "Provisional Advance" for an Overseas Finding Application are:

- company contact details
- descriptive name/title of claimed research and development activities

If you have conducted research and development activities during 2019/20 and you have some questions, please don't hesitate to contact the accountant in our organisation with whom you normally deal.

Preparation of Finalisation Declaration - Single Touch Payroll

If you are using the Single Touch Payroll (STP) you'll be exempt from issuing payment summaries to your employees if you have made a "Finalisation Declaration". The Finalisation Declaration requires the employer to declare that all of the information relating to the financial year for each employee has been provided through your STP reporting.

Finalisation Declaration lodgement requirements:

- Employers with 20 or more employees – by 14th July 2020.
- Employers with 19 or less employees – by 31st July 2020.

Not Using Single Touch Payroll (STP)?

If you are not using Single Touch Payroll (STP) payment summaries must be prepared and sent to all employees by 14th July 2020.

PAYG Withholding Tax - If You Are Not Using Single Touch Payroll (STP)

If you are not using Single Touch Payroll (STP) – the annual summary is due to be lodged with the Australian Taxation Office by 14th August 2020.

COVID-19 Fourth Stimulus Package

The Federal government's recent announcement relating to the fourth COVID-19 Stimulus Package should assist the building and construction industries and some tradie businesses. The \$25,000 grants are available to eligible people who are building a new home or renovating an existing home. Applications for the grants are now open with the latest date for applications of 31st December 2020.

Coronavirus SME Guarantee Loans

A reminder that these loans are available from banks and other financial institutions until 30th September 2020. The loans are for a maximum of \$250,000 unsecured repayable over a three-year period. The Australian government is guaranteeing 50% of the loan amount.

The funding for these loans was made available by the Reserve Bank to the trading banks on the understanding that the banks would utilise their usual lending criteria for these loans. This means that you'll probably require a business plan, budgets and cashflow forecasts, together with financial accounts for 2018/19 and interim financial accounts to 30th April 2020.

If you would like our assistance in the preparation of the loan application, can you please contact us at your earliest opportunity so that the necessary supporting documentation can be prepared for submission to your nominated bank.

Research and Development

Thousands of business owners and team members have been working from home for the last 2-3 months and may have given some thought to the development of new products, processes or services or be undertaking some initial research and development. If you're one of those people and you're wondering whether you should continue to work on this particular idea to see whether a commercial product or service could be developed and what would be the taxation deduction for the expenditure that you have spent, you will probably be interested in a brief overview of the Australian government's Research and Development Incentive Scheme.

You must be conducting your research and development activities via a company if you're going to access the research and development tax incentive.

There are two key components relating to the Research and Development Tax Incentive:

- For companies with turnovers under \$20 million - a 43.5% refundable tax offset.
- For companies with turnovers over \$20 million - a 38.5% non-refundable tax offset.

The minimum expenditure on complying research and development activities is \$20,000 in the financial year irrespective of the number of projects and whether the research was successful or not.

Companies have to register their research and development projects with AusIndustry annually, normally by 30th April the following year (i.e. for the year ended 30th June 2019 companies would normally have had to register by 30th April 2020) or the date of lodgement of the company's income tax return, whichever is the earlier. (This year the registration deadline has been extended to 30th September 2020 because of COVID-19).

To claim research and development expenditure so that the offset will be allowed, companies must be able to justify that they have undertaken "experimental activities" to prove that their "idea" is "new knowledge".

The outcome of the experiments could not have been known or determined in advance on the basis of publicly available knowledge, information or experience. The company needs to be able to indicate the research that was undertaken to determine the "knowledge gap".

There needs to be some searches undertaken to determine whether the concept that you're proposing is already known in the marketplace.

You then need to conduct a series of experiments that prove a "statement" relating to your concept.

Formal documentation of the experiments that have been undertaken (both successful and unsuccessful) also need to be maintained.

If you are interested in obtaining more information on the Research and Development Incentive Scheme, please contact Anna Casamento at CBSW.

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